Learning How to Invest

Why Invest?
Investing for the long-run is important. Here are two reasons on why you should invest:

- **Compounding**- Compounding happens when you earn interest on your first investment and on the interest. Investing and saving money allows you to make money from money.
- **Beat Inflation**- Inflation is the tendency of the value of money to decrease over time. If you simply keep your money at home, in a checking account, or in a savings account you probably won't beat the rate of inflation and might actually lose money. Wise investments, on the other hand, usually equal or beat the rate of inflation.

When to Start?
Now! Now! Now! It is never too late to start, but starting as soon as you get your first job is ideal.

- If you invest $2000 when you turn 20 and continue to invest $250 every month at a 10% interest rate, compounded monthly, you will have about $1,022,346 by the time you are 55 years old.
- If you wait to start investing until you are 30 with the same $2000, $250 a month, and 10% interest rate, compounded monthly, you will only have about $358,586 by the time you are 55 years old.

Plan Your Investment
Before investing, plan your expenses and goals. Do you need money for short-term goals such as a house, car, or vacation? Set money aside for both your short-term goals and long-term goals such as retirement. Be aware of the risk level of each type of investment and plan according to your needs. Don't be afraid to ask a financial advisor for help.

What to Invest In?

Short-term

- **Money Market Funds**- A money market fund is a type of mutual fund that invests in low-risk government securities, certificates of deposits, commercial paper of companies, and other highly liquid and low-risk securities.
- **Certificate of Deposit (CD)**- A CD is issued by a bank or other financial institution. The investor agrees to deposit a certain amount of money for an agreed upon period of time and in return receives a fixed rate of interest.

Long-term

- **Bonds**- Bonds are certificates of debt issued to raise money for the government and corporations. Investors in bonds are essentially lending money to these institutions. The issuer, in return, is required to pay the bondholder the principle investment and interest at an agreed upon date. To get the full value of a bond, the investor should wait until the bond is mature.

- **Stocks**- According to CNN.com, “Over the long term, stocks have historically outperformed all other investments. From 1926 to 2004, the stock market returned an average annual 10.4 percent gain. The next best performing asset class, bonds, returned 5.4 percent.” Check the Treasurer’s Tip, How to Invest in the Stock Market.
- **Mutual Funds**- A mutual fund is a pool of money from individual investors, companies, and other organizations that a professional manager invests in some combination of stocks, bonds and/or other securities. Mutual Funds Check the Treasurer’s Tip, How to Invest in the Stock Market.
- **Individual Retirement Account (IRA)-** An IRA is one type of retirement investment plan. This allows individuals to contribute 100% of earned income annually up to a specified maximum amount. The contribution may be deductible from income taxes. See the Treasurer’s Tip on Retirement Planning to learn more.

More Information

Investing can be overwhelming. There is also a certain amount of risk involved. Remember to carefully review your situation before you invest. Many financial advisors will give you a free consultation.